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Report Highlights:

Total Chinese centrifugal sugar output is forecast to decrease one percent to 14.35 MMT (raw value) in marketing year (MY) 2008/09. Sugar beet acreage is forecast to be unchanged in MY08/09 and acreage for sugar cane is forecast to rise two percent. MY07/08 production is estimated at a record 14.5 MMT (raw value), five percent higher than the previous estimate due to a record yield and area expansion. In MY07/08, starch sweeteners are estimated to be less price-competitive versus natural sugar due to rising corn prices and a government policy that will curb the further expansion of starch sweetener production.

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Executive Summary

Total Chinese centrifugal sugar output is forecast to decrease one percent to 14.35 MMT (raw value) in marketing year (MY) 2008/09. Despite rising prices for competing crops, sugar beet acreage is forecast to remain unchanged in MY 08/09 and acreage for sugar cane is forecast to rise two percent from the previous year due to consistent farmer returns. MY07/08 production is estimated at a record 14.5 MMT (raw value), five percent higher than the previous estimate due to a record yield and area expansion. The consumption of natural sugar in MY 2008/09 is forecast to rise eight percent, driven by growth in the beverage and food processing sectors. To boost sugar consumption, the government will continue to control production of artificial sugar and limit its sale on the domestic market. In MY07/08, starch sweeteners are estimated to be less price-competitive versus natural sugar due to rising corn prices.

Sugar Cane

Sugar cane harvested area for MY08/09 is forecast at 1.58 million hectares (Ha), two percent higher than MY 07/08. Sugar cane area accounted for 84 percent of the total crop area in MY07/08. Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Guangxi's output is estimated to account for 57 percent of China's sugar cane production in MY07/08. According to Guangxi's agricultural department, sugar cane acreage in the province will be 12 percent higher, 880,000 Ha, in MY07/08. The cane yield in Guangxi is estimated at a record 73 MT/Ha in MY07/08, four percent higher than the previous year.

Weather patterns have been favorable for most growth stages in MY 07/08, except for a 40-day period of low temperature in January and February 2008. While the low temperatures and freezing rain devastated fruit and vegetable production in some southern provinces, the impact on sugar cane was marginal. During the adverse weather, about half of the cane in Guangxi had already been harvested and only minor production regions in northern and eastern parts of the province were affected. Industry sources report that as of March 31, 2008, the average sugar exaction rate for the current crushing season was 12.35 percent, 0.32 percentage points lower than the pervious year. For the affected crop, there was substantial plant recovery due to subsequent warm weather and adequate rainfall.

One remaining uncertainty is that the freezing temperature might have impacted the sprouting rate for the new crop in MY08/09. As the industry and farmers have not experienced such a prolonged freezing period in the past 50 years, no historic records or research is available for evaluating the situation. Evaluation of the crop of emergence rate will be finalized by May 2008.

Sugar cane remains a stable source of income for Guangxi's farmers. Sugar cane is a cash crop in Guangxi and competes for acreage with corn, rice, and cassava. To encourage farmers to plant more, millers have been raising the purchase price for sugar cane in recent years. In MY07/08, though sugar prices declined due to a record production, mills did not lower the purchase price for cane accordingly. According to industry information, cane farmers also generally receive a subsidy from the mills to partially cover the rental cost for machinery used for planting. Additionally, the mills offer a premium purchase price for cane varieties with higher yield or sugar content. Post's industry interviews show some mills also offer discounted fertilizer for its contract farmers to offset the rise in input prices. Such supportive measures for the farmers are expected to continue in MY08/09.

At the beginning of each marketing year, provincial governments in the southern sugar cane production regions announce a pre-set (floor) purchase price for cane. The pre-set purchase

price is guidance for the miller when they purchase cane for the farmers. The table below shows the historical pre-set purchase price in Guangxi and other provinces. If the sugar price increases during the marketing year, sugar mills usually pay their contracted cane farmers a bonus. In MY 07/08, the average cane price in four major producing provinces was \$32.2/MT (RMB242/MT). In Guangxi province, the cane purchase price is estimated at \$36/MT (RMB 270/MT) in MY07/08, unchanged from the previous year. Importantly, the mills did not lower the cane price even though the average wholesale sugar price in MY07/08 is four percent lower than the previous year.

Provincial governments have not announced the pre-set purchase price for cane in MY 08/09. Post forecasts that the purchase price will remain roughly at the same level as the previous year, which will guarantee a reasonable profit for the cane farmers.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB/MT (USD1.00 = RMB7.50)				
	Guangxi	Yunnan	Guangdong	Hainan
MY03/04	170	145	175	150
MY04/05	180	150	185	160
MY05/06	220	170	200	175
MY06/07	270	202	303	206
MY07/08	270	202	290	206

Sugar Beet

Sugar beet area for MY08/09 is forecast at 300,000 HA, unchanged from the MY07/08. To encourage beet planting, some sugar mills have raised the beet purchase price by 20 percent (to \$40/ MT) for MY08/09 at planting season. However, the rising price for competitor crops, such as tomatoes and oilseeds, is making sugar beets less attractive to farmers. Increased prices for agricultural inputs are expected to reduce the profit margin for both beet farmers and mills in MY07/08. Industry sources estimate that the price for agricultural chemicals and fuels rose by 25 percent in MY07/08, while the average sugar price in MY07/08 is four percent lower than the previous year. During the previous marketing years, beet production has been far behind the millers' processing capacity. To keep sugar beets competitive with other crop, the millers in northern China provinces have repeatedly raised the beet price.

In Xinjiang province, the largest beet sugar producer in China, the beet price in MY07/08 is \$33.3/MT (RMB250/MT). This is four percent higher than the previous year. In MY07/08, the province's sugar output is estimated at four percent of total national sugar output. Post estimates the average beet yield in MY07/08 was 34.1 MT/HA, five percent lower than the previous year. Industry sources attribute the reduced yield to inferior seeds used by some beet farms after quality seed sold out in MY07/08.

While beet acreage has expanded the past two years, it is restrained by the lack of quality seed. Unlike the major field crops, beet seed research is not viewed as a priority by central and provincial agricultural departments. Prior to 2005, beet and beet seed acreage was on the decline. In MY06/07 and MY07/08, more imported beet seed were used to make up for the domestic seed shortfall. While the imported varieties had a high yield, the sugar content was lower than their Chinese counterparts. Some industry representatives are strongly interested in introducing quality beet varieties that are more adapted to Chinese conditions. The current average Chinese beet yield is about half American or European yields, which indicates a great potential for seed improvement in China in years to come.

As the sector consolidates, some large scale farms in Xinjiang and Heilongjiang provinces are turning to mechanized planting and harvesting. According to industry sources, they are expected to purchase imported beet harvesters and planting machinery in MY08/09.

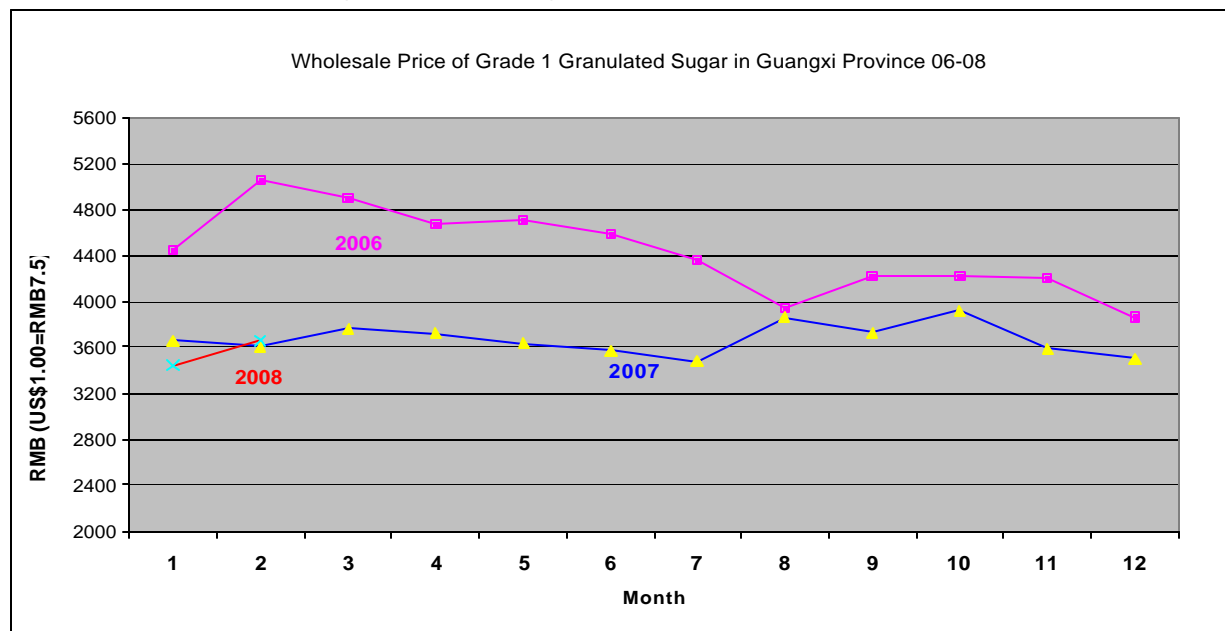
Sugar

Production

Overall sugar output for MY08/09 is forecast to reach 14.35 MMT (raw value), one percent lower than MY07/08. Cane sugar output for MY08/09 is forecast at 13 MMT, two percent lower than MY 07/08. Beet sugar output is forecast at 1.35 MMT in MY07/08 compared to 1.30 MMT in MY07/08. The top five producing provinces are: Guangxi, Yunnan, Guangdong, Hainan and Xinjiang. Their output is estimated to account for 95 percent of national total sugar output in MY07/08. MY07/08 production is estimated at a record 14.5 MMT (raw value), five percent higher than the previous estimate due to a record yield and area expansion.

The average production cost for sugar in Guangxi is estimated at over \$440/ton (RMB3,300/ton) in MY07/08, while it was \$426/ton (RMB3,200/ton) in MY06/07. Fuel and labor price rises are the major factors that boost the production cost.

In MY07/08, due to a bumper crop and record sugar output, the industry lobbied the central government to purchase sugar to hold as state reserves during the processing season. In January 2008, the Ministries of Commerce and Finance and the National Development & Reform Commission jointly announced the intention to purchase 500,000 MT of refined sugar from the market after January 15. The purchase price is fixed at \$466/ton (RMB 3,500/ton), in reference to wholesale sugar price in Guangxi. The government designated about 20 sugar reserve warehouses in consuming regions to store the sugar. The final settlement prices at different warehouses vary in accordance with their transportation distance from Guangxi province. Industry sources estimate that about 270,000 tons of sugar entered the state reserves through the government purchase program from January to March 2008. As the current market price ranges above the government purchase price, few mills are choosing to sell the sugar to the state warehouses. Post believes that the final purchased amount will not fulfill the government target.



Source: Guangxi Sugar Exchange Center, [Website: www.chinasugarmarket.com](http://www.chinasugarmarket.com)

Consumption

MY08/09 sugar consumption forecast is 15.4 MMT (raw value), eight percent higher than MY07/08. Total per capita natural sugar consumption in MY07/08 is estimated at about 10 Kg. The food processing, beverage and pharmaceutical industries are the largest consumers of sugar, while household table sugar consumption accounts for a relatively small portion of the total. Official data shows that rural per capita table sugar consumption reached 1.09 Kg in 2006, down slightly from 1.13 Kg in 2005. Though the government stopped releasing data on urban per capita sugar consumption in 2001, Post estimates that it rose slightly in recent years. Growth in sugar consumption is mostly attributed to the rapidly growing processed food, beverage sectors, and catering services.

Production of Sugar Containing Products: Jan-Nov 2007 (in 1,000 MT)							
	Confection-ary	Cakes	Biscuits	Dairy Products	Canned Foods	Carbonated Drinks	Juice products
Total	8681	579	1,951	16,142	4,593	9,554	9,852
Growth Rate (%)	19.8	17.35	24.3	23.6	24.75	14.6	22

Source: China National Statistical Bureau

Starch sweeteners are often used in beverage, confectionary, and bakery production as a substitute for sugar. In MY07/08, because of a 17 percent rise in corn price, the starch sweeteners became much less competitive versus cane and beet sugar. During the previous market years, due to the comparatively low production cost, starch based sweeteners have been price competitive with cane and beet sugar.

Trade

MY08/09 imports are forecast at 750,000 MT, 150,000 MT lower than the estimate for MY07/08 as a result of two consecutive years of increased domestic sugar output. Imports usually start to arrive in China after the crushing season ends and the domestic price starts to increase. The TRQ for CY 2008 is 1.95 MMT, with a in-quota-tariff of 15 percent. The CY 2008 out-of-quota tariff rate is 50 percent. The amount of the quota and the tariff rate has been unchanged since 2005 and will remain the same in the coming years in line with China's World Trade Organization (WTO) obligations.

As stipulated in China's WTO accession agreement, 30 percent of the TRQ (585,000 MT) is reserved for non-state trading enterprises and the remaining 70 percent is assigned to state trading enterprises. Each year, China imports about 450,000 MT of raw sugar (state trade) from Cuba under a longstanding bilateral agreement signed in 1950's.

Regarding the 30 percent of the TRQ (585,000) for non-state trading enterprises, trade sources report that the amounts of allocation they receive in most cases are not commercially viable for a Panamax vessel shipment. The traders have to pool their quota and sometimes the quotas are traded at a price of around \$20/ton.

Though raw sugar imports are estimated to drop by 50 percent to 600,000 MT in MY07/08, refined sugar imports are estimated to increase by 10 percent. Reaching 300,000 MT in MY07/08, most of the increase is attributed to Chinese imports from India. According to trade sources, exports of Indian sugar were aided by an export subsidy in MY07/08.

Stocks

Ending stocks for MY08/09 are forecast at 2.5 MMT (raw value). Ending stocks for MY07/08 are estimated at 2.89 MMT (raw value), nearly 1.0 MMT higher than the previous estimate of 1.9 MMT. Stocks include state reserves and those held by the industrial, commercial, and distribution sectors.

Given a record bumper crop and record sugar output in MY07/08, industry sources estimate that all Cuban sugar imports in CY2008 will enter state sugar reserves and will not be auctioned. In previous years, imported Cuban sugar enters the state reserve first, then near the end of each marketing year the government decides on the timing and the volume of stocks to be auctioned in an effort to dampen wide market price swings. In normal storage conditions, raw sugar could be stored for up to five years while for refined sugar can be stored for up to 15 months and still meet Chinese sanitary requirements.

Other Sweeteners

Saccharine

Saccharine, which is five hundred times sweeter than sugar, is viewed as the major competitor to sugar. Since 2002, the Chinese government has tightened control on the sale of saccharine in China. However, it still produces and exports far more than it consumes domestically. In 2007, China produced 19,813 MT of saccharine, of which 15,714 MT were exported and 2,922 MT sold in China. In 2006, domestic sales were 3,456 MT. According to the China Sugar Association (CSA), the government's 2007 saccharine domestic sales target was set at 3,000 MT, which was 500 MT lower than previous years. CSA has not announced its 2008 sales target, but industry sources estimate that the government will continue to tighten its control on domestic saccharine sales in order to boost natural sugar consumption.

Currently, only five saccharine plants are licensed for operation. Each month these five plants are required to report to CSA on their operational activities, including production progress, domestic and export sales, and stock levels.

Starched-based Sweeteners

Official data on starch-based sweeteners is not available. Industry sources estimate that production of starch-based sweeteners in 2007 reached 4.8 MMT, unchanged from the previous year. China's corn production in 2007 reached a record high of approximately 145 MMT, but corn prices rose 17 percent year on year in MY07/08 because of rapid growth in feed and industrial use.

The rise in the corn price erodes the profit margin for starch sweeteners. Post estimates that the starch sweetener will become much less price competitive in MY07/08 and MY08/09, and the growth rate for starch sweetener use will be flat. Post forecasts that starch sweetener production will fall 10 percent in MY08/09, to 4.3 MMT. The use of starch sweeteners in MY07/08 is equivalent to about 3.4 MMT of cane sugar.

To curb rising food prices, in November 2007, the government stopped approval of new processing plants that use grains as ingredients. This policy shift will cap or severely restrict the further expansion of starch and starch sweetener production in China even if there is a favorable market price relationship for starch sweetener. Post forecasts the tight policy control on grain processing sector will not ease in the short term given the mounting concern over food prices in China.

Tables

Production, Supply, and Demand (PSD) Tables

Table 1. Centrifugal Sugar
China, Peoples Republic of

Sugar, Centrifugal							(1000 MT)		
	2007	Revised		2008	Estimate		2009	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10-2006	10-2006		10-2007	10-2007		10-2008	10-2008
Beginning Stocks	703	703	703	1728	1728	1901	1918	1918	2893
Beet Sugar Production	1358	1358	1358	1350	1350	1300	0	0	1350
Cane Sugar Production	11497	11497	11497	12500	12500	13200	0	0	13000
Total Sugar Production	12855	12855	12855	13850	13850	14500	0	0	14350
Raw Imports	1150	1150	1190	700	700	600	0	0	600
Refined Imp.(Raw Val)	180	180	275	150	150	300	0	0	200
Total Imports	1330	1330	1465	850	850	900	0	0	800
Total Supply	14888	14888	15023	16428	16428	17301	1918	1918	18043
Raw Exports	10	10	10	10	10	8	0	0	10
Refined Exp.(Raw Val)	150	150	112	200	200	100	0	0	110
Total Exports	160	160	122	210	210	108	0	0	120
Human Dom. Consumption	13000	13000	13000	14300	14300	14300	0	0	15400
Other Disappearance	0	0	0	0	0	0	0	0	0
Total Use	13000	13000	13000	14300	14300	14300	0	0	15400
Ending Stocks	1728	1728	1901	1918	1918	2893	0	0	2523
Total Distribution	14888	14888	15023	16428	16428	17301	0	0	18043

Table 2. Sugar Cane

China, Peoples Republic of									
Sugar Cane for Centrifugal							(1000 HA)(1000 MT)		
	2007	Revised		2008	Estimate		2009	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10-2006	10-2006		10-2007	10-2007		10-2008	10-2008
Area Planted	1495	1495	1495	1550	1550	1550	0	0	1580
Area Harvested	1495	1495	1495	1550	1550	1550	0	0	1580
Production	99784	99784	99784	106000	106000	110000	0	0	102000
Total Supply	99784	99784	99784	106000	106000	110000	0	0	102000
Utilization for Sugar	99784	99784	99784	106000	106000	110000	0	0	102000
Utilizatr for Alcohol	0	0	0	0	0	0	0	0	0
Total Utilization	99784	99784	99784	106000	106000	110000	0	0	102000

Table 3. Sugar Beet

China, Peoples Republic of

Sugar Beets							(1000 HA)(1000 MT)		
	2007	Revised		2008	Estimate		2009	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10-2006	10-2006		10-2007	10-2007		10-2008	10-2008
Area Planted	287	287	287	300	300	300	0	0	300
Area Harvested	287	287	287	300	300	300	0	0	300
Production	10536	10536	10536	10500	10500	10500	0	0	11050
Total Supply	10536	10536	10536	10500	10500	10500	0	0	11050
Utilization for Sugar	10536	10536	10536	10500	10500	10500	0	0	11050
Utilizatn for Alcohol	0	0	0	0	0	0	0	0	0
Total Distribution	10536	10536	10536	10500	10500	10500	0	0	11050

Price Table

Table 4. Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province

RMB/MT (US\$1.00=RMB7.50)					
Month	2004	2005	2006	2007	2008
January	2,548	2,590	4,449	3,656	3,442
February	2,502	2,996	5,071	3,599	3,657
March	2,666	3,132	4,903	3,760	
April	2,781	3,109	4,679	3,723	
May	2,839	3,115	4,711	3,639	
June	2,896	3,224	4,583	3,576	
July	2,870	3,417	4,361	3,476	
August	2,943	3,467	3,949	3,867	
September	3,123	3,684	4,229	3,736	
October	2,847	3,760	4,221	3,925	
November	2,633	3,514	4,217	3,595	
December	2,585	4,055	3,861	3,498	
Yearly Average	2,769	3,339	4,436	3,670	3,550
Source: Guangxi Sugar Exchange Center					
Website: www.chinasugarmarket.com					

Trade Tables

Table 5. China's Sugar Imports by Origin - MY 2006/2007 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	432,109	169,300	322,208	480,728	1,404,344
India	0	0	702	53,825	54,527
Korea, South	46,611	28,426	43,119	42,995	161,151
Cuba	49,897	0	130,250	204,370	384,517
Thailand	146,619	11,896	104,776	41,639	304,930
Australia	5,181	3,251	2,487	81,492	92,410
Malaysia	1,965	2,189	344	522	5,020
Singapore	0	0	0	0	0
Brazil	181,002	50,627	179	32,434	264,242
Japan	319	113	176	317	926
United Arab Emirates	0	300	0	0	300
Paraguay	0	0	0	0	0
United States	2	61	7	3	73
Taiwan	1	1	2	1	5
Mauritius	2	9	9	5	25
Others	510	72,426	40,157	23,125	136,217

Source: China Customs

Table 6. China's Sugar Imports by Origin - MY 2007/2008 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	221,456				221,456
India	96,930				96,930
Korea, South	46,049				46,049
Cuba	45,323				45,323
Thailand	25,919				25,919
Australia	5,844				5,844
Malaysia	728				728
Singapore	300				300
Brazil	125				125
Japan	102				102
United Arab Emirates	100				100
Paraguay	20				20
United States	5				5
Taiwan	3				3
Mauritius	3				3
Others	6				6

Source: China Customs

Table 7. China's Sugar Exports by Destination - MY 2006/2007 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	15,863	41,540	38,733	18,748	114,884
Hong Kong	8,439	8,297	10,255	13,428	40,419
Mongolia	915	780	600	1,200	3,495
Japan	632	2,710	3,576	960	7,878
United States	649	405	253	423	1,730
Singapore	1,428	3,938	6,578	285	12,229
Malaysia	207	263	254	493	1,217
Yemen	232	792	468	384	1,875
Canada	201	127	140	108	576
Australia	89	70	69	111	340
Macau	440	286	222	304	1,252
Korea, North	80	65	113	40	297
Indonesia	70	21,928	30	104	22,131
Korea, South	1	21	61	20	103
Others	2,482	1,858	16,114	888	21,342

Table 8. China's Sugar Exports by Destination - MY 2007/2008 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	11,442				11,442
Hong Kong	7,474				7,474
Mongolia	902				902
Japan	742				742
United States	619				619
Singapore	487				487
Malaysia	361				361
Yemen	210				210
Canada	206				206
Australia	87				87
Macau	83				83
Korea, North	51				51
Indonesia	25				25
Korea, South	21				21
Others	173				173